

ACCOUNTING POLICY

TOPIC: Section 1--Business Standards 6.0	EFFECTIVE DATE: 6/30/94
TITLE: Safeguarding Assets: Custodianship Responsibilities	REVISION DATE: 1/10/03
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BACKGROUND

One of the major requirements of good internal control is to safeguard assets. In expressing an opinion on the financial statements of an organization, certified public auditors (and governmental auditors) are required to evaluate the system of internal control in place and to determine if reportable conditions exist. A material weakness in internal control related to fixed assets or inventories may lead to a qualified financial statement for the State of Wisconsin or an institution. A more than relatively low level of risk may result in a finding of a reportable condition in the audit report.

Similarly, good business practice requires that assets be appropriately secured and maintained, used for the purposes intended, periodically accounted for, and properly disposed of.

Wisconsin Statutes [s. 46.09 (1)] require that the Business Manager ("Steward") of each institution "have immediate charge of all books, accounts, papers, and records relating to the institution's financial management." The Business Manager should also "be responsible for the safekeeping and economical use of all stores and supplies." In addition, section 46.03 requires that the department "supervise, manage, preserve and care for the buildings, grounds and other property pertaining to said institutions, and promote the objects for which they are established."

OMP Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments ("Common Rule") requires, with respect to equipment, that states are to use, manage and dispose of equipment in accordance with state policies. Federal requirements include maintaining equipment, appropriate records, taking periodic physical inventories, and maintaining an adequate internal control system. Material non-compliance with these requirements may result in a compliance audit finding and/or qualified financial statements. In addition, federal grant agreements may have specific requirements relating to fixed assets and equipment.

Detailed requirements for the reporting of fixed assets and equipment are found in **Section 8--Fixed Assets**.

POLICY

Each Division or Institution shall establish adequate internal control procedures to ensure that fixed assets, equipment and supplies are appropriately safeguarded. These procedures shall include, but not be limited to:

1. Assigning custodianship responsibilities for each asset or type of asset or location;
2. Complying with Department of Administration risk management requirements and due professional care;
3. Maintaining accurate and reliable accounting records for fixed assets and inventories and reconciling fixed asset subsidiary records to FMS records;
4. Conducting an annual (in some cases, biennial) physical inventory of all assets to be reported in the Department's financial statements;
5. Immediately investigating missing equipment and reporting the disappearance in a timely manner to federal, state or local officials, as needed;
6. Disposing of surplus equipment in accordance with state and departmental requirements and/or federal grant requirements and agreements.

CUSTODIANSHIP RESPONSIBILITIES

Designation of Custodian(s). Custodianship involves the responsibility for safeguarding an asset or group of assets. Each division or institution should designate a custodian for each piece (or each location) of capital equipment. The custodian may be the employee who uses the equipment, the immediate supervisor, the Bureau director, or an employee who is formally assigned division-wide functions. The custodian's responsibilities are to assure that the equipment is properly maintained, to assure that the equipment is used for the purposes intended, and assure that information regarding the equipment is properly reported (acquisitions, transfers, disposals, movements, etc.).

Divisions and Institutions should have a method (preferably in writing) to communicate the responsibilities of custodianship for assets owned by or used by the organization.

A custodian is also needed for supplies inventories, including such areas as institution stores inventories, pharmacy inventories, maintenance inventories, food stamp inventories and forms center inventories. Office supplies may be, for example, under the custodianship of an office manager. A custodian is also needed for all approved petty cash and change funds.

Monitoring and Verification. As part of its internal control responsibility, each division and institution needs to monitor custodianship within the organization on a periodic basis. Generally, monitoring and verification is the responsibility of the Business Manager or Management Services Director.

Shared Responsibilities. In an organization as large as DHFS, shared responsibility will be common. For example, pharmacy inventories may be the responsibility of the medical director rather than the Business Manager. In this case, the Legislative Audit Bureau has considered the Business Office responsible for oversight, including explaining inventory variances. Or computer equipment may be owned by one division, used by a subgrantee, and maintained by the Bureau of Information Systems. In this latter case, the division that applied for and received the federal grant is ultimately responsible for the performance of others.

Divisions and Institutions need to review the lines of responsibility involving assets and to fix custodianship duties accordingly to ensure proper control regardless of organizational structure.

RISK MANAGEMENT RESPONSIBILITIES

Due Care and Internal Control. Risk management activities include the proper care for buildings and equipment and adequate protection against fire or theft. In particular, computers must be in rooms with locked doors or secured by cable. Items that are highly portable require additional protection. Such items include laptop computers, video recorders or players, and audio-visual equipment. Thefts are to be reported to the proper authorities. Under federal regulation, adequate maintenance procedures must be developed to keep the property in good condition.

Division and Institutions to ensure adequate safeguards to prevent loss, damage, or theft of the property should develop a control system. Any loss, damage, or theft shall be investigated and properly reported.

Periodic risk assessment should be made to determine if proper precautions have been taken within a Division or Institution for the protection of assets. Preventive measures should be taken to limit risk to no more than a relatively low level.

Self-Insurance. The State has a self-insurance program for losses. Department of Administration requirements should be adhered to, including the reporting of risk management premiums. The Office of Purchasing is the contact for DHFS risk management.

For risk management and property control purposes, a permanent record of all items classified as capital expenditures or major materials and supplies is required. These records form the basis for the Annual Property Coverage Report.

The risk management reports are different from fixed asset and equipment records used in financial reporting. The definition of asset is different, the valuation is different, and the two reports are used for different purposes. For example, risk management reports are used to determine reimbursement for losses and include all insured property. Fixed asset and equipment records are for capital assets greater than \$500 per unit. Risk management valuation is based on an estimate of replacement cost whereas financial accounting records are based on historical, or acquisition cost.

ACCURATE AND RELIABLE ACCOUNTING RECORDS

Separation of duties applies to the safeguarding of assets. Generally, one person should not control a transaction from beginning to end. Division of responsibilities decreases risk.

Generally internal control for assets includes three persons:

1. Recordkeeping (including disposals) should be independent of custodianship and the physical inventory to the extent possible.
2. It is preferable, though not required, to have an independent person conduct the physical inventory. Neither the custodian nor the record keeper is independent.

Accounting records are to be updated **at least quarterly**. Records that are updated once a year after the close of the fiscal year do not provide adequate control. The goal of a double-entry accounting system is to have accurate records as of the end of the month and to enter transactions as they occur.

Currently, DHFS maintains subsidiary systems to record fixed asset and equipment data. Information to be included in the accounting records is detailed in **Section 8--Fixed Assets 1.0** (Capital Asset and Inventory Systems). This information is required by federal regulation. Special procedures apply to transfers. All transfers between one DHFS organization and another DHFS organization or another state agency require use of form DMS-476. This information is essential for GAAP reporting purposes and to ensure that a transfer-in is balanced with a transfer-out.

Additions to the subsidiary system records are to be reconciled to FMS records, and the ending balance for the prior year is to be reconciled to the current year's ending balance, annually. These reconciliations are essential to demonstrate that capital assets are being correctly reported and that balances are being carried forward correctly from one year to the next. Any variances should be less than \$500 per account.

A physical inventory must be conducted annually (in some cases, BFS may approve biennial physical inventories). Institutions are required by Wisconsin Statutes to perform a physical inventory annually. Results of the physical inventory must be reconciled to the property records and all discrepancies explained.

The physical inventory must be complete and accurate. The Legislative Audit Bureau may interpret any unexplained discrepancies as weak physical control.

INVESTIGATION OF MISSING OR STOLEN EQUIPMENT

Under federal regulation, any loss, damage, or theft shall be investigated promptly. The results of that investigation need to be properly acted upon and reported.

Each item listed as a disposal should be explained as to method of disposal--junked, stolen, missing, transferred, etc. Some software has the capability to record this information by a symbol in the disposal. In all cases, adequate back up information is required as an audit trail.

It is management's responsibility to follow up on any areas where a lack of control is identified in the physical inventory process and to apply corrective action.

DISPOSAL OF EQUIPMENT

There are a number of requirements for the disposal of equipment. Disposal of equipment is to be done in accordance with state and federal requirements and as well as in compliance with good internal control and accounting procedures, consistent with a state employee's ethical obligations.

Requirements. Section 8—Fixed Assets 5.0 (Disposition of State-Owned Equipment) details most requirements for the disposal of equipment. In addition, there are federal regulations that apply to equipment originally purchased with federal funds, and specific federal grants may have additional conditions.

Approval in advance by the DOA Bureau of Procurement must be obtained for the disposal of any piece of equipment with a unit fair market value of greater or equal to \$10,000 or have an original purchase price of \$10,000 or more. In addition, the Department of Administration requires an annual summary report of equipment disposed of by category.

Internal Controls. All disposal transactions must be consistent with departmental accounting procedures. All receipts from sales must be properly controlled and deposited intact within five working days or less. Generally, the receipts from the sale of surplus property are to be recorded as GPR-Earned or miscellaneous revenue rather than refund of expenditure. See **Section 3—Revenues and Refunds 1.0** (Accounting for Revenues and Refunds of Expenditure).

Ethical Considerations. Sales or other disposal of surplus equipment must be in accordance with provisions of the *Employee Handbook*, including, but not limited to, Work Rule #3 (concerning unauthorized use of property), Conflicts of Interest, Use of State Property, and Acceptance of Gifts, Favors or other Renumerations. The appearance of a conflict of interest is to be avoided as well as an actual conflict of interest. See also **Section 1—Business Standards 2.0** (Standards of Business Conduct).

REFERENCES

Employee Handbook, G-1, N-2, N-4, N-5

DHFS APP **Section 1—Business Standards 2.0** (Standards of Business Conduct)

DHFS APP **Section 3—Revenues and Refunds 1.0** (Accounting for Refunds of Expenditure)

DHFS APP **Section 8—Fixed Assets 1.0** (Capital Asset and Inventory Systems)

DHFS APP **Section 8—Fixed Assets 5.0** (Disposition of State-Owned Equipment)

OMB Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments "Common Rule"

Wisconsin Statutes s. 46.09 (1), s. 46.03

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